

UK utility investment: Who decides, who pays and who bears the risk?

Regulatory Policy Institute
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RPI-X@20 and RIIO

RPI-X@20 is our comprehensive review of the 'RPI-X' framework used to regulate GB energy networks for nearly 20 years
Set to conclude in Autumn 2010

We published our Recommendations for consultation on a new regulatory framework, RIIO, in July 2010

The consultation closed on 6 September 2010



The Gas and Electricity Markets Authority are due to take their final decision on the RIIO model in Autumn 2010

Investment challenge is not new

RPI-X has delivered significant benefits for consumers

But networks face new challenges and opportunities

Networks focused
on the short term

Networks focused on
Ofgem not customers

Limited consideration of innovation
/ how best to deliver

Potentially limited
appetite for risk

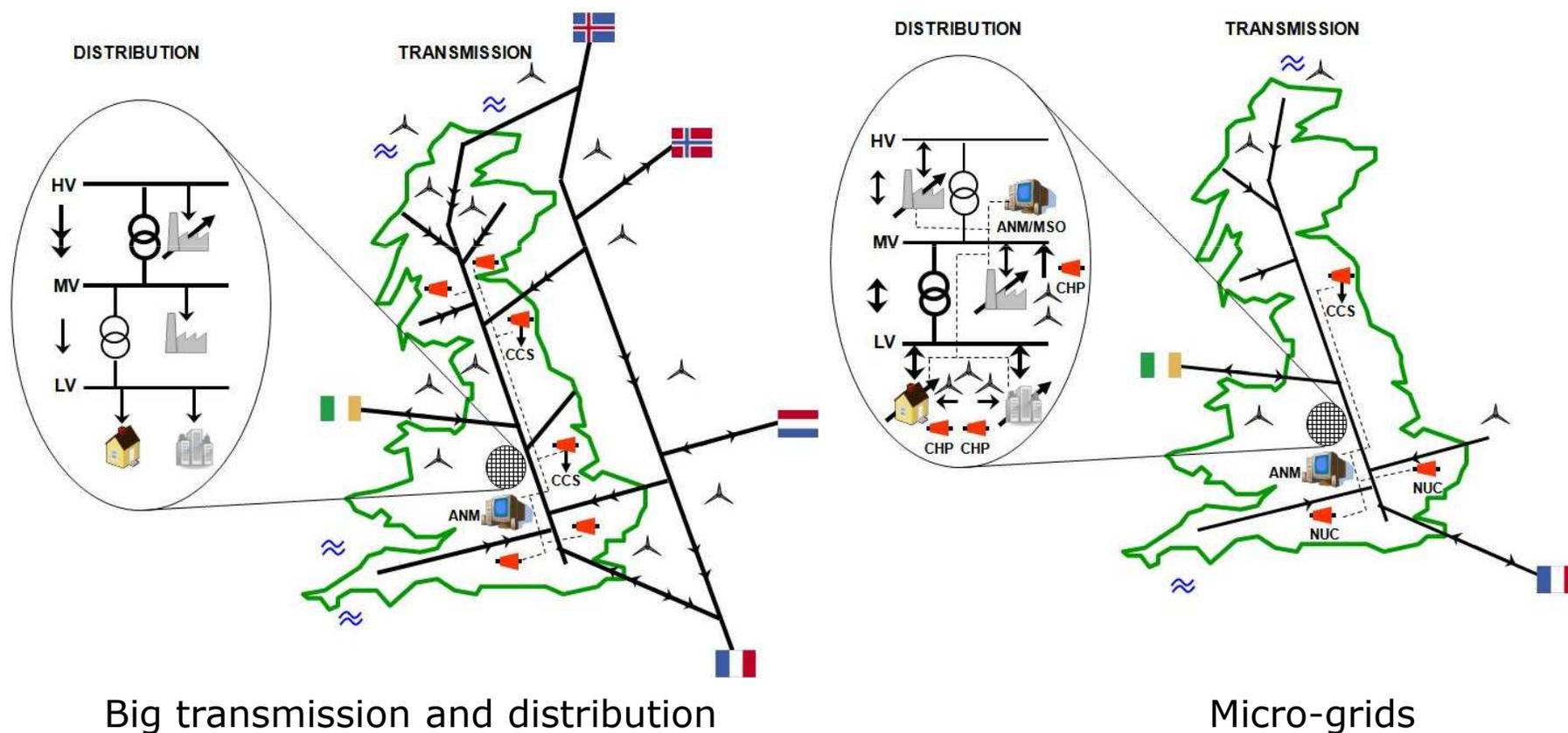
Bias for 'capex' solutions
rather than non-network options

Limited focus on 'cross
sectoral' interactions



RPI-X is not broken but it is no longer fit for purpose

Networks face uncertainty about how to deliver



What do networks need to deliver?

Desired outcomes from the future regulatory framework



Playing a full role in facilitating delivery of a sustainable energy sector

<p>Security of supply</p>	<p>Safety : e.g. gas mains replacement</p>	<p>Environmental targets: Low carbon; Greenhouse gases</p>
<p>Specified social targets</p>		<p>Quality of service: E.g. consumer experience</p>

Providing value for money over long term

Who decides what and how to deliver?

Important that the regulatory framework provides clarity on who takes decisions

Considered a range of potential options allocating this role to different parties



Central govt-led model

- Potentially rapid delivery
- Is govt best placed to decide on future networks
- Could lead to passive networks taking direction

Joint industry led model

- Model would allow development of a sound base of data
- Not clear who would decide disputes
 - May be merit in expertise on networks from outside energy industry

Adapted regulatory framework

- Empower networks to make greater use of own initiative in interests of consumers

Networks best placed to determine development of networks, informed by stakeholders

Deciding 'what' to deliver under RIIO

Outputs-led

Transparent 'compact'
on what networks
required to deliver

Reflects network role in
delivery of sustainable
energy sector

Informed by
enhanced
engagement

Enhanced engagement

Companies to engage
effectively with a range
of stakeholders

Ofgem to take
forward enhanced
engagement

GEMA would
remain decision-
maker

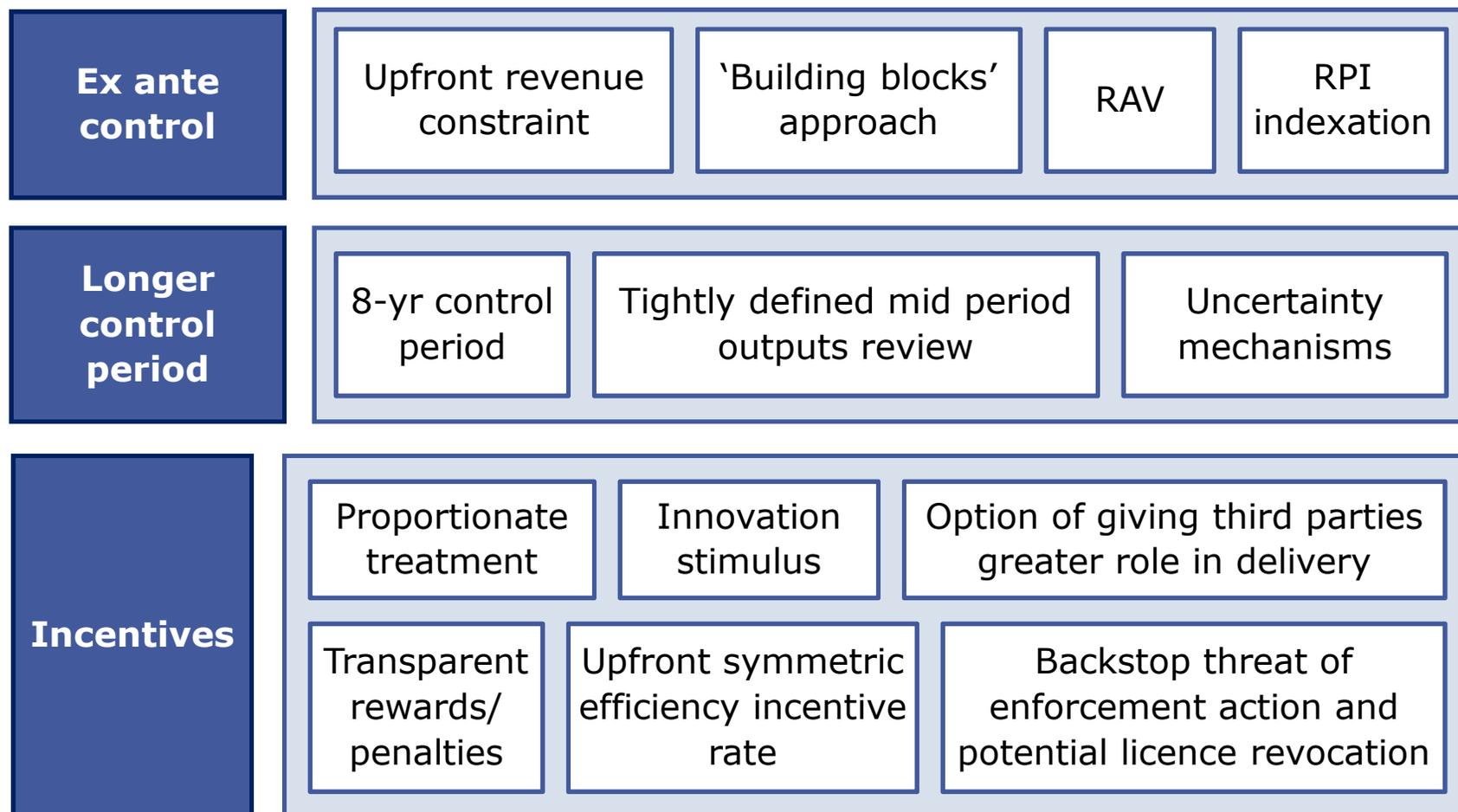
Modification requests and CC references

GEMA could make a
reference to the CC following
public interest concern
raised by third party

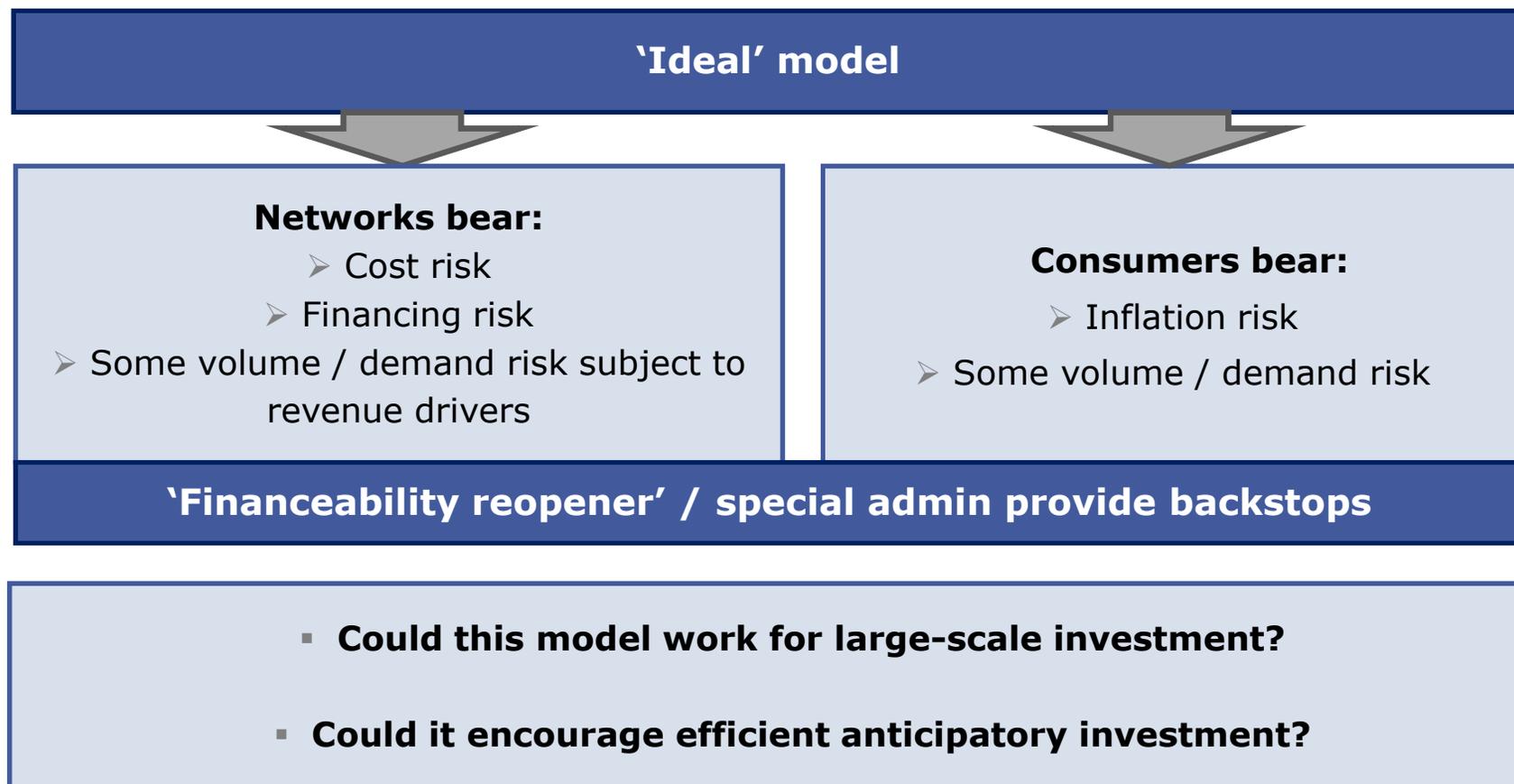
Published draft
guidance on
process for
requests

Keep introduction
of govt third party
right of appeal
under review

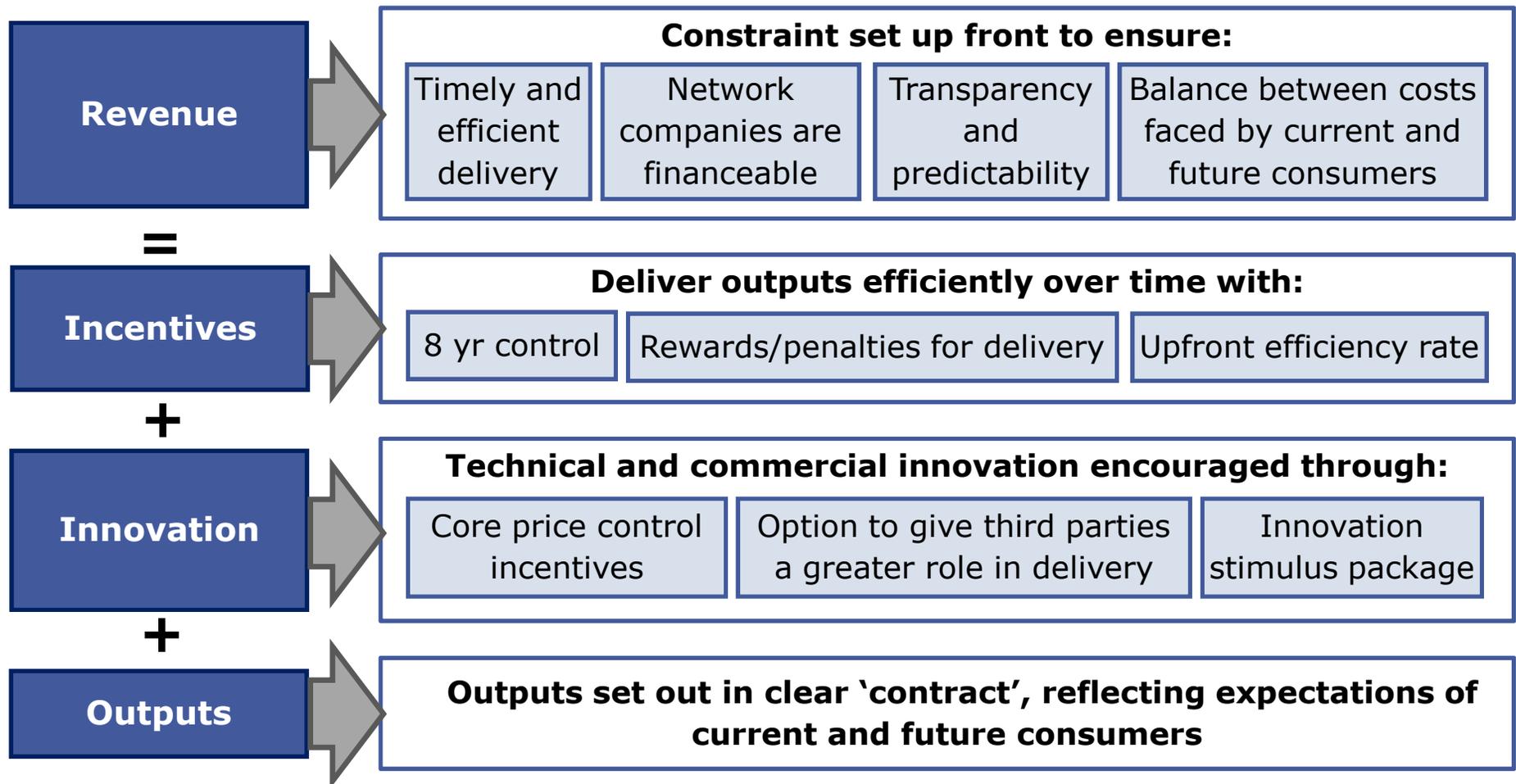
Deciding 'how' to deliver under RIIO



Who bears the risk under RIIO?



RIIO: A new approach to regulation



What is the process from here?



Transmission	Gas Distribution
TPCR5	GDPCR2
We would fully incorporate RPI-X@20 conclusions for April 2013	

Electricity Distribution
DPCR5: Insulated from RPI-X@20 but ideas aligned to RPI-X@20 recommendations (e.g. outputs, innovation, incentives)
DPCR6: We would incorporate RPI-X@20 conclusions in next price control (2015)

The logo for Ofgem, consisting of the word "ofgem" in a white, lowercase, sans-serif font, centered within an orange rounded rectangle. The background of the slide features a collage of images: solar panels on the left, a hand holding a document on the right, and a close-up of a gas burner at the bottom. A blue header bar is at the top.

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Promoting choice and value
for all gas and electricity customers